Technology & Declaratory Order FAQs

1. Question: What is a bundle?

Answer: A bundle, as defined for the Declaratory Order on page 93, means a collection of items from the same vendor related to a specific purchase. A district may purchase components of technology from multiple vendors, but may only bundle those items purchased from the same vendor.

- 2. Question: Is a bundle the same thing as a group purchase?
 Answer: No. A group purchase is multiple items/units of the same or substantially similar items; i.e., 50 desks or 50 desks and 50 chairs, or 50 desk and chair combinations. A bundle consists of relatively dissimilar items that function together as a unit. "Bundle" is a term used with technology purchasing, but is actually used in similar ways for other costs such as remodeling—remodeling could include labor, supplies, purchased services, and equipment within the meaning of "remodeling." Within technology, a bundle probably will include supplies, equipment, and purchased services.
- **3. Question:** How do school districts or AEAs account for, inventory, insure, or have audited a bundled technology unit?

Answer: School finance experts were involved in writing the Declaratory Order to ensure that districts (or AEAs) would be able to continue to meet all of their fiscal obligations while being able to expand purchasing opportunities and funding opportunities by bundling costs for purchasing purposes. The Declaratory Order on page 93 states that "bundling is allowed to the extent that all expenditures are within the meaning of technology as discussed in this declaratory order, are allowed from a single fund, and provide sufficient information to account for the expenditures properly...Nothing about this declaratory order relieves a school district of its obligation to account for all items appropriately and in more contexts than just the fund from which the expenditure was appropriate."

Bundling is a purchasing concept. For accounting purposes, the district will continue to follow the correct Uniform Financial Accounting coding; for example, functions and objects for accounting and for reporting; will continue to tag/identify each unit of equipment for inventory purposes; and will continue to handle insuring equipment and supplies in the same way it has negotiated with its agent for other equipment and supplies.

4. Question: How can an AEA bundle technology for purchasing when it does not have a PPEL Fund/Levy?

Answer: Bundling is a purchasing concept and is not limited to the PPEL fund. Each "bundle" must be appropriate to the single fund from which it will be purchased, but AEAs could bundle technology in the General Fund. Districts could bundle technology in the General Fund, in the PPEL fund, or possibly in the SAVE/SILO fund or PERL as long as technology is an allowable expenditure

from that fund and each bundle is separated by the fund that is paying for the purchase.

5. Question: When the district records the asset, does it bundle the entire 1:1 purchase as a single asset or does it divide the total cost by the number of units? Answer: Recall that a bundle consists of relatively dissimilar items that function together as a unit purchased from the same vendor. Dividing the total cost by the number of functioning units might not be appropriate; for example, multiple laptops or electronic tablets might jointly use a single server, but the server is much more costly than the individual laptops or tablets. Dividing the cost evenly over the various items that made up the functioning unit would cause the server to be undervalued and the laptops/tablets to be overvalued. This would not work well for insurance purposes if the server were destroyed by a lightning strike, but all the laptops/tablets were unharmed.

Because the district would have disaggregated the bundle for recording the items in the accounting system by correct UFA coding, the district would have a more accurate basis for determining the unit cost working from the accounting side rather than the purchasing side. At that disaggregated level, it would be possible for the district to divide the cost of like items by the total cost that was disaggregated to those items. So the cost of the server would be different than the cost of the laptops/tablets, but the cost of each laptop/tablet might be identical to the cost of another laptop/tablet in the same bundle.

Each laptop/tablet will have a distinct serial number even if they have the same model number. Some districts will tag the laptops/tablets by that serial number with an individual cost in the inventory and/or insurance records and will also use that unique serial number to determine which laptop/tablet was assigned to each student/individual. Other districts will record the laptops/tablets as a group of a specific number of laptops/tablets purchased in a single bundle that are the same model and purchase date while keeping the serial numbers and student assignments in a separate subsidiary record. The method used by districts would be determined locally to meet the district's needs.

6. Question: Is bundling the same thing as capitalization allowed by generally accepted accounting principles (GAAP)?

Answer: No. Bundling is a purchasing concept that may include items that are not appropriate for capitalization under GAAP. Capitalization under GAAP is allowed for purposes of recording capital assets in a governmental fixed asset inventory or for the entity-wide statements in the audits or for recording capital assets in a proprietary fund and certain trust funds that use full accrual accounting. The latter (proprietary and certain trust funds) records depreciation expense annually on equipment, but governmental funds such as General Fund, PPEL fund, PERL fund, and SAVE/SILO fund record equipment expenditures by function and object.

- 7. Question: Some of the individual items that could be included in the purchase of bundled technology, such as the warranties, shoulder straps, and bags, would not meet the cost and criteria for capitalization as described in question 6. If the district included some of these otherwise non-capitalized items in the bundled price, does that violate GAAP regarding capitalized assets?
 Answer: No. The fact that the district bundled costs for purchasing purposes does not change how the district will record assets. GAAP requires that capital/fixed assets be reported at historical cost including ancillary charges necessary to place the asset into its intended location and condition for use. Therefore, the cost of the capitalized asset could include warranties as well as shoulder straps and bags under GAAP, but would not include costs such as contracted technical services, for example. The Declaratory Order has not changed this GAAP guidance.
- **8. Question**: The Declaratory Order states that "we assume that most of the expenditures associated with the 1:1 laptop initiative are appropriate from PPEL unless it appears that a more appropriate fund exists from which to pay an expenditure." How does the Declaratory Order reconcile with Iowa Code and Iowa Administrative Code? For example, Iowa Code states that maintenance is not a PPEL expenditure in 298.3(1), paragraph "f" and in 298.3(4) states that PPEL shall not be expended for employee salaries or travel expenses, supplies, printing costs, or media services, etc. Iowa Administrative Code subrule 281-98.64(3) repeats these disallowed uses:

"Inappropriate expenditures in the PPEL fund include the following:

- a. Student construction.
- b. Salaries and benefits.
- c. Travel.
- d. Supplies.
- e. Facility, vehicle, or equipment maintenance.
- f. Printing costs or media services.
- g. Any other purpose not expressly authorized in the Iowa Code."

Answer: The response is two-fold. One portion deals with the disallowed costs in 298.3(4) and the other portion deals with the definition of maintenance as used in 298.3(1).

A. Previous guidance given to districts regarding this issue in PPEL in 298.3(4) has stated that stand-alone costs included in the list of disallowed items (employee salaries or travel expenses, supplies, printing costs, or media services) would not be appropriate from PPEL. That same paragraph in Iowa Code goes on to state "or for any other purpose not expressly authorized in this section." The guidance given to districts has said that those same items that are an integral part of an expressly allowed expenditure from PPEL were not intended to be disallowed by that paragraph. For example, general supplies would not be appropriate from PPEL, but supplies that are necessary for the purchase and improvement of grounds, construction of facilities, repairing, remodeling, energy conservation, and demolition would be

allowable from PPEL because those activities are specifically and expressly authorized in the Iowa Code section. The Declaratory Order has added "technology" to the list of activities where those costs from paragraph (4) are allowable when they are an integral part of technology.

B. The term "maintenance" is used loosely to describe various activities. However, the law and court cases have a narrower definition of what is meant by that term. "Maintenance" and "repair" are separated, and each definition excludes the other. "Maintenance" in those cases means to cause to remain in a state of good repair; it includes cleaning, upkeep, preventative maintenance, keeping equipment in effective working condition and ready for daily use, minor repairs, replacing parts, inspecting for needed maintenance, preserving the existing state or condition, preventing a decline in the existing state or condition. Repair means restoring an existing structure or thing to its original condition, as near as may be, after decay, waste, injury, or partial destruction. This is the definition intended in section 298.3(1).

What is commonly called "maintenance" related to technology is not what the definition in law or court cases has meant; instead, districts are actually referring to a license renewal fee; technical assistance support contract; Internet subscriptions, licenses and fees; or cable or satellite services, etc. That is the meaning of maintenance from the laundry list in the Declaratory Order of potential items that fit within the definition of "technology."

- **9. Question**: Would technology be a qualifying expenditure from SAVE/SILO? **Answer**: The law states that SAVE/SILO may be used for any purposes allowed in 298.3 (PPEL). Therefore, if the expenditure is allowable from PPEL and is allowed by the district's revenue purpose statement, it is allowable from SAVE/SILO (statewide sales tax).
- **10. Question:** Which items included in a technology bundle cannot be purchased from PPEL?

Answer: Excluded items would include software that is educational or instructional and professional development of staff that does not train staff in the operation of the computers/technology (Declaratory Order, page 93).

Bundling is optional. The reason a district might consider bundling is to meet the \$500 threshold in the PPEL statute. Thus, all items in the bundle must be allowable under PPEL (meaning you can't include non-PPEL-covered items in a bundle being funded by PPEL).

11. Question: Can a district pay for contracted technology services from PPEL? **Answer:** Yes, as long as the cost, whether stand alone or part of a bundle, meets the definition of technology in this Declaratory Order, meets the \$500 per unit (stand-alone unit or bundled technology unit, as applicable) cost threshold in

PPEL, and is in reality a license renewal fee; a technical assistance support contract; an Internet subscription, license, or fee; or a cable or satellite service.

12. Question: Can a district pay for subsequent or discrete contracted technology services or for extended warranties from PPEL?

Answer: Even if the contracted technology service or the extended warranty is not part of the initial bundled technology purchase, it may still qualify as a technology cost in its own standing if it meets the criteria listed in the answer to question 11.

13. Question: Does the answer to question 11 mean that a district must terminate its employee and then contract the services with an outside provider in order to pay from PPEL?

Answer: Although the Declaratory Order intended to expand purchasing and funding opportunities for districts, the question related to employee salary and benefits was not submitted, and therefore, the Declaratory Order did not contemplate nor deal with this question—it neither specifically included nor excluded employees from providing the technology services to his/her employing district.

There are concerns in terminating an employee such as reduced availability to students and staff members, potential union issues, loss of IPERS, benefits, etc. If a district wishes to pursue this, they would be well-advised to first consult legal counsel.

In addition, the individual would need to meet the IRS requirements for an independent contractor determined through an IRS form SS-8 ruling. It is the Department's understanding that the IRS intends to take a close and careful look at these (high risk) situations due to abuse.

Costs associated with contracted technology services should be expensed, not capitalized unless, of course, the costs meet the capitalization criteria of GASB 51 (intangible assets) and the district's capitalization threshold for entity-wide statements.

14. Question: Software is a supply. Can it be expended from PPEL? **Answer:** Even though a supply, software meets the definition of technology in the Declaratory Order. Software can be either a stand-alone technology purchase or part of the bundled cost with the acquisition of a technology unit. On page 93 of the Declaratory Order, the Department stated that the only software <u>not</u> eligible to be purchased from PPEL is software that is educational or instructional.

The costs associated with the software package will be coded as a supply; however, if the costs meet the capitalization criteria of GASB 51 (intangible assets) and the district's capitalization threshold, the costs may be capitalized for the entity-wide statement in the audit.

15. Question: Does the subject of the Declaratory Order and this FAQ apply to electronic tablets as well as laptops?

Answer: Smartphones, electronic tablets, and other personal computing devices are not significantly different than laptops for the purposes of the Declaratory Order or this FAQ. Smartphones and electronic tablets are designed to sync with and be backed upon other electronic devices; transferring files and printing is accomplished by some type of networking system or virtual storage that all devices can access, and additional applications may be necessary to perform functions needed by the district and its students, etc.; therefore, bundling and other discussions would apply.

16. Question: Our district uses a technology system/software to maintain our HVAC system. This purchased service/software monitors our building temperatures and functioning of our systems. Is this a technology cost that we can pay using PPEL funds? Can the HVAC system be considered "technology" so that maintenance is allowable from PPEL?

Answer: The HVAC system itself would be purchased under 298.3(1), paragraphs "b", "f" or "g" but not under paragraph "c." The Declaratory Order does not re-characterize expenditures. HVAC, without regard to cost, would be expended from PPEL under 298.3(1)"b" if a new facility or under 298.3(1)"f" if a replacement or major repair to the HVAC system. The latter expressly states that repair "does not include maintenance."

Maintenance on the HVAC system would be payable from General Fund rather than PPEL; repair of the HVAC system could be expended from PPEL.

The purchase cost of the monitoring technology may be paid from PPEL if it qualifies as technology separate from the HVAC system itself and to the extent it meets the criteria listed in the answer to question 11.

- 17. Question: What procedures must the district follow to sell/dispose of laptops purchased from PPEL? Where are the proceeds deposited from the sale? Answer: The district will follow the procedures required by Iowa Code section 297.22. This section requires that proceeds from the sale of personal property be receipted into the General Fund—it does not matter that the original cost was accounted for in the PPEL fund.
- **18. Question:** When does this Declaratory Order go into effect? **Answer:** This Declaratory Order was effective on the date it was issued, April 14, 2011, for the fiscal year 2010-2011.
- 19. Question: May a district change previous entries in its accounting records based on the broader definition of technology in the Declaratory Order?Answer: Districts may make adjustments to fiscal year 2010-2011, but not to prior periods that are before July 1, 2010.

If districts make adjustments for previous transactions on or after July 1, 2010, and within the fiscal year, be sure that the entries are correcting general journal entries (reverse previous entries and enter again correctly) rather than recording them as transfers. Recording the adjustments as transfers improperly results in inflated revenues and inflated expenditures. Please check with Janice Evans (janice.evans@iowa.gov; 515/281-4740) on how to record the adjustments if you are not sure.

20. Question: Is Microsoft Office considered educational software that by Iowa Code must be purchased only from the General Fund?

Answer: If the district has determined that the students need the software to participate in class or to do homework for a class, then it is educational software and consequently not covered by PPEL. (If the district would allow the nonpublic school to use its nonpublic textbook money to purchase the software, then it is educational software. It is the same definition for purposes of Iowa Code.)

21. Question: May a district charge a technology fee to students? Are there limits on fees? Are waivers required? What about deposits? Do deposits have to be returned?

Answer: A technology fee is allowable as a textbook rental fee and would follow the same requirements. Fees must be based on actual costs. If a technology fee is charged to students, the district is saying that the technology is a textbook substitute; in which case the technology can only be purchased from the General Fund and not from PPEL. If a technology fee is charged, the waiver provisions must be honored.

If a deposit is charged to students, it must be a reasonable amount. The district should deposit the check, but hold the deposits in that account and not use the deposits to pay any expenditure, such as repair or maintenance. The amount of the deposit would be returned to the student when the computer/technology is returned to the district; however, the district may reduce the amount of the deposit that it returns to the student by the actual costs of damage inflicted by the student while the computer/technology was in his/her possession (or should have been in his/her possession). Refundable deposits are not subject to the free/reduced waiver provisions.

If the computer/technology is actually stolen and the theft reported, it is a theft of school property and is handled in the same way the district handles a theft from its computer lab.

The district should have a policy approved by its board on appropriate use, responsibilities, deposits, fees/fines, damage, and theft.

22. Question: What types of specific technology are permissive under PPEL or SAVE/SILO?

Answer: Although the Department appreciates that the list of potential items that might qualify as technology is very long, it believes that the districts can make these determinations locally using the guidance provided in the Declaratory Order and this FAQ. The district administrative team, with or without its auditor, can make this determination by considering the following basic questions provided throughout this FAQ:

- Does the cost meet the definition of "technology" within the Declaratory Order? (See question 11).
- Is the technology a stand-alone unit or does it qualify to be considered a bundled technology unit? (See questions 1 and 2).
- Is the cost limited to the General Fund by Iowa Code? (See question 10.)
- Is the cost otherwise excluded from PPEL? (See question 8.)
- Does the cost meet the \$500 threshold required in PPEL, for the stand-alone technology unit or the bundled technology unit, as appropriate? (See question 11.)
- Is the cost considered "maintenance" as defined in Iowa Code/court cases, and therefore, disallowed from PPEL? (See question 8 "B".)